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SUBJECT: U/S JEFFERY'S MEETING WITH SEVERSTAL DIRECTOR
MORDASHOV

Classified By: Daniel A. Russell, Deputy Chief of Mission, reasons 1.4(
b/d)

¶1. (SBU) Summary: Meeting with Under Secretary of State for Economic, Energy and Agricultural Affairs Reuben Jeffery, Principal Deputy Assistant Secretary for International Finance and Development Elizabeth Dibble and EcMinCoun on January 30, Aleksey Mordashov, General Director of Severstal Group, expressed optimism about the U.S., Russian and global economies. He urged Russia's accession to the WTO soon, stressing the symbolic importance of May 2 -- Putin's final day as president -- and said that Deputy Prime Minister Kudrin is committed to taking the steps necessary to join. Mordashov expressed interest in a bilateral investment treaty but cautioned that completing WTO negotiations come first. End Summary.

MODERATELY OPTIMISTIC ON GLOBAL ECONOMY

¶2. (SBU) While not discounting the global financial situation, Mordashov reported that his companies are strong, benefiting from a robust demand for steel in China and elsewhere. He saw no big problems in the U.S. economy and noted that his two steel mills there were doing well. According to Mordashov, growth in Asia and the BRICS will help sustain the United States and he quoted points made by Henry Kravitz in Davos on the better resilience of the world economy now that it is less dependent on U.S. growth.

¶3. (SBU) Mordashov said the Russian economy is doing well, showing positive growth and little negative impact from the world situation, but he warned that inflation is a serious concern since "it is a real problem for the middle class." He also noted that there were some problems raising finance in Russia, resulting in pressure on the Central Bank to increase liquidity, but given the significant reserves of the GOR and Bank, "fortunately," Mordashov said, "there is lots of money."

RUSSIA'S WTO ACCESSION - GOOD SIGNALS AT DAVOS

¶4. (C) Mordashov said he met with DPM Kudrin and Max Medvedkov, Ministry of Economic Development and Trade's main WTO negotiator, at Davos. He said that Kudrin's commitment at Davos to completing WTO accession had raised Mordashov's optimism. According to Mordashov, the remaining issues fall into two categories: those more technical and those more

difficult and political. He claimed that compromise was possible on all issues especially the technical ones: agricultural issues, IPR, encryption and SPS (Sanitary-PhytoSanitary). Mordashov said SOEs (State Owned Enterprises) was the "political" issue and the biggest remaining obstacle. Russia was reluctant to move too far on this issue given its natural monopolies and complicated energy pricing, but he thought that agreement could be reached.

15. (SBU) Mordashov strongly urged agreement by May 2, the final day of the Putin presidency. He said that to achieve this a clear timetable was vital. It would remove a tendency to "slowdown" and would make other difficulties disappear. Speaking of outstanding bilaterals, Mordashov described the checkpoint issue with Georgia as political and complained that Saudi Arabia was just being difficult on civil aircraft and access to pipelines and just wanted Russia to meet the same requirements the Saudis had. On Ukraine, he noted that they were likely to join only by mid-summer, and that in any event there was an agreement in place that they would not complicate each other's accession.

16. (C) In response, U/S Jeffery stressed the importance of maintaining momentum to resolve the remaining issues and stressed that in that regard it was essential Russia undertake the implementation measures that WTO members expected before accession. He also noted that the WTO is a consensus organization and Russia had a major task ahead soliciting final approval from all members, not just those with whom it had outstanding bilaterals.

BILATERAL INVESTMENT TREATY - SOUNDS INTERESTING

17. (SBU) U/S Jeffery and PDAS Dibble noted the U.S. interest in discussing a bilateral investment treaty (BIT) with Russia and explained the main advantage was dispute resolution. Mordashov said he was unfamiliar with such treaties, but that mutual protection of investment would be good and helpful. Joking that, "You can't split Max" (i.e., Max Medvedkov), he worried about the possible impact in completing the WTO accession process and warned about the difficulty of maintaining two sets of negotiations.

18. (U) This message has been cleared by U/S Jeffery.

BURNS